



COMMONWEALTH COMPANIES

Providing complete fund solutions.

Cost Basis Reporting

General Q&A

Q. What is Cost Basis Reporting and when will it be implemented?

Cost Basis is a term that refers to the original value of an asset for tax purposes (this is usually the purchase price), adjusted and recalculated to account for items such as stock splits, wash sales, dividends and return of capital distributions. This adjusted value is used to define the capital gain or loss when that asset is sold. This legislation was passed on October 3, 2008, as part of the Emergency Economic Stabilization Act of 2008. As part of that legislation, more stringent requirements on financial agents including banks, brokers, and transfer agents exist to record and report cost basis data to the client and the Internal Revenue Service (IRS). Because financial services firms need to adjust their record keeping systems to comply with the new rules, the changes are being implemented in a staged rollout, requiring cost basis reporting according to the table:

- Stock acquired on or after January 1, 2011
- Regulated investment companies and dividend reinvestment plans (DRiP) shares acquired on or after January 1, 2012
- Debt Securities, options and other financial instruments acquired on or after January 1, 2013

Q. Can I review the Economic Stabilization Act of 2008 and the Cost Basis Reporting regulations?

The IRS Document outlining the Act can be viewed at the following link: [Basis Reporting](#)

Q. Are the systems at Commonwealth ready for the new Cost Basis reporting?

The IRS publication was finalized on October 12, 2010 and our record keeping provider (an industry leader in financial services systems development) began the system design immediately. The new reporting module has been tested, installed and the new solution is being configured.

Q. What is a covered security?

A covered security, as defined per IRS Code §1.6045 (g)(3)(A) is a specified security acquired for cash on or after the effective date as applicable (language from the code extracted below).

For purposes of reporting under section 6045(g), section 6045(g)(3)(A) provides that a covered security is any specified security acquired on or after the applicable date if the security: (1) Was acquired through a transaction in the account in which the security was held; or (2) was transferred to that account from an account in which the security was a covered security, but only if the broker receiving custody of the security receives a statement under section 6045A (described later in this preamble) with respect to the transfer.

Q. What share lot calculation methods will Commonwealth support?

A share lot method is a formula for computing the cost basis of an asset that is sold in a taxable transaction. Commonwealth has selected Average Cost as the default method, but also supports FIFO (First in First Out), LIFO (Last in First Out) and other specific lot identification options upon request within the parameters of the regulations.

Broker/Issuer Related Q&A

Q. Will Commonwealth use the Cost Basis Reporting Service (CBRS) from DTCC to transfer cost basis data?

Commonwealth is a DTCC Member and will use CBRS for transferring cost basis information to and from our brokers. For more information on CBRS, follow this link to the DTCC website: [CBRS Solution](#)

Q. What about changes for S Corporations under the new legislation?

At the moment, no IRS form 1099-B reporting by a broker or transfer agent is required for clients that are corporations (which includes S Corporations). The new changes require brokers and transfer agents to start 099-B reporting for S corporations (other than a financial institution) for sales of covered securities (as defined above) acquired on or after January 1, 2012. This means that an S Corporation will need to be identified apart from other types of corporations.

Q. What are Broker/Issuer responsibilities regarding Corporate Actions impact to cost basis of securities?

Broker/Issuer responsibilities are clearly stated in the new legislation referencing corporate action events that affect cost basis of securities. Offices should review the final IRS regulations for clarification. Specific details can be found on page 64082 in the section titled, "Reporting by Issuers of Actions Affecting Basis of Securities."

Q. How can Broker/Issuer offices prepare and understand their compliance responsibilities of the new legislation?

This document should serve as a summary only; Brokers should familiarize themselves with the final IRS publication by following this link [Basis Reporting](#) to be aware of the potential impact of it.

Shareholder Related Q&A

Q. Will shareholders be required to provide Commonwealth with cost basis information?

There is no requirement for shareholders to provide cost basis information. In the case of a gift transfers, such as a transfer to a UGMA, the cost basis and acquisition date of the donor's (transferor's) shares, if known, will be carried forward. In the case of estate transfers, the cost basis of covered securities will be determined based on the date of death in conjunction with the fair market value on that date unless the estate administrator provides an alternate cost basis. However, there is no requirement for the Transfer Agent to solicit cost basis information from shareholders.

Q. Will shareholders need to inform Commonwealth if a transfer is a gift or inheritance?

Shareholders, or their representatives, should provide the necessary documentation for such transfers when they present the new registration instructions. Transfers that fall under this category include transfers under the UGMA, transfers to an estate, or gifts to a charitable institution. Under the new regulations, transfers that are not specifically identified as gifts, inheritances, and private sales or re-registrations due to name change, replacements or a related party transfers are defaulted to gifts for cost basis reporting purposes.

Q. Will shareholders need to inform Commonwealth of the cost basis for a transfer due to gift or inheritance?

There is no requirement for the shareholder to provide cost basis. The estate representative may provide an alternate valuation for covered inherited securities, however in the absence of any valuation; the fair market value on date of death (if available) will become the adjusted cost basis. If the fair market value on the date of death is not readily available the shares will be marked non-covered. Transfer of gifted covered securities will take the donor's (transferor's) acquisition date and the donor's cost basis. Transfers due to re-registration such as name change, related parties, and replacements do not have any effect on cost basis.

Q. What if I would like to change my Cost Basis method from the Average Cost formula?

Shareholders wishing to change the default share lot method on the account level or for a specific taxable transaction MUST CALL Shareholder Services at 804-267-7400 to speak with an Account Representative.

Reporting Related Q&A

Q. How will 1099-B reporting change and will this require a new 1009-B form?

IRS Form 1099-B will be altered to include additional information due to the new legislation. Follow this link for a draft of the new form; [1099-B DRAFT](#)

Q. I currently receive an IRS Form 1099-B when I receive a proceeds check. Will the IRS Form 1099-B still be provided with the proceeds check?

The IRS Form 1099-B that is currently distributed with proceeds checks (Check/1099 Combo) will no longer be distributed throughout the year when sales are made. After the 2010 tax reporting year Commonwealth will be providing IRS Form 1099-B at year end only. Taxable transactions in 2011 will produce a 2011 1099-B, which will be mailed by February 15, 2012.

R. Can Commonwealth provide historical cost basis information?

Commonwealth can provide manual historical cost basis information in specific Broker/Dealer situations, but on the whole will track client cost basis information on a going forward basis only as defined by the IRS. Please contact our offices at (804) 267-7400 for more information